

CALIFORNIA ECONOMIC STRATEGY PANEL

AGENDA

May 8, 2003
9:30 A.M. – 12:30 P.M.

California Chamber of Commerce
1215 K Street, 14th Floor
Sacramento, CA 95812-1736
(916) 444-6670

9:30 Welcome, Introduction and Purpose

Lon S. Hatamiya, Chair and Secretary
California Technology, Trade and Commerce Agency

9:40 Briefings of Panel Activities (The Panel will take up the 10:00 A.M. agenda item on-time so that members can participate via teleconference)

Status of the *Environmental Goals and Policy Report*
Anya Lawler, Deputy Director
Governor's Office of Planning and Research

9:45 Status of the "California Economic Forum" on October 23-24, 2003

(Ed Kawahara for) Doug Gordon, Vice President
California Foundation for Commerce and Education

9:50 Status of the California Commission on Taxation in the New Economy

Sunne Wright McPeak
Panel Member

10:00 Draft "Guiding Principles, Goals and Criteria for State Government Investment in Economic Development"

Panel Discussion

10:45 Draft Concept Paper for Activities With PG&E

Panel Discussion

11:00 Briefings of Panel Activities (continued)

Status of the “California Regional Economies Project”

Jerry Neuman, Bill Simmons and Donnie Fowler
Panel and Joint Committee Members

- 11:15 Report on the Economic Strategy Panel Forum at the Annual California Association for Local Economic Development (CALED) Conference

(Don Perry for) Bill Simmons
Panel Member

- 11:20 Status of the Sixth Annual Entrepreneur Summit and the Role of the Panel

Nick Bollman, President and CEO
California Center for Regional Leadership

- 11:30 Highlights of the Assembly Jobs, Economic Development and the Economy Committee on the State of the California Economy: Meeting the Challenges Ahead Held on March 11, 2003

Honorable Mark Ridley-Thomas
State Assembly

- 11:40 Discussion of Opportunities in Rural Economic Regions: Case Study of the Mother Lode and the San Joaquin Valley

Pat Lanthier, Principal
Rivera/Lanthier and Associates

- 12:00 Public Comments and Next Steps

- 12:30 Adjourn

CALIFORNIA ECONOMIC STRATEGY PANEL

Summary of the May 8, 2003 Meeting

Background

The purpose of California Economic Strategy Panel meeting was to discuss and move forward on the action items identified during the March 13, 2003 meeting, including a request from Senator Vasconcellos to assist the Senate Select Committee on Economic Development in developing guiding principles for State government investment in economic development. The following provides a summary of the Panel's actions and discussions during the May 8, 2003 meeting.

Summary of Panel Actions

The following is a summary of actions taken by the Panel.

- Staff will ensure Panel representation at the *Environmental Goals and Policy Report* (EGPR) State Agency Advisory Group meeting on May 22.
- The "California Economic Forum" will be held on October 23 – 24 at the Hayes Mansion Conference Center in San Jose. The invitation-only forum will be hosted by the California Foundation for Commerce and Education. The Panel will co-sponsor the forum with the California Chamber of Commerce and the San Jose-Silicon Valley Chamber of Commerce. The Panel will convene a meeting from 10:00 A.M. – 11:30 A.M. on October 23rd prior to the forum.
- Panel members will review and comment on the draft recommendations of the California Commission on Taxation in the New Economy's Interim Report, due May 22nd.
- Staff will revise the draft "Guiding Principles and Criteria for State Government Investment in Economic Development" and develop a matrix of policy recommendations from previous reports that will serve as the foundation for the guiding principles.
- Staff will expand and submit a funding proposal to Pacific Gas and Electric Company to support the Panel in conducting regional forums on regional economic growth and competitiveness issues. Staff will also pursue other funding sources to support the work of the Panel.
- The "California Regional Economies Project" was launched to, in part, meet the Panel's longer-term actions to provide real-time economic data and information and to connect workforce development and economic demands. Staff will provide a draft matrix of regional industry cluster studies since 1998 for review and to use as a baseline for the "California Regional Economies Project."

- Staff will continue to work with the Assembly Committee on Jobs, Economic Development and the Economy, including receiving input on the draft “Guiding Principles for State Investment in Economic Development.”
- Staff was directed to research policy issues regarding the availability of high-speed internet access in rural areas.

Summary of Panel Discussion

Status of the *Environmental Goals and Policy Report*

Anya Lawler, Deputy Director for Policy and Special Projects in the Governor’s Office of Planning and Research (OPR), reporting for Acting Director Tal Finney, said that the draft of the first half of the *Environmental Goals and Policy Report (EGPR)* will be completed in May. This section addresses the State’s context and focus for growth and land use. The report will apply a sustainability framework consistent with the Panel’s *Creating A Shared California Economic Strategy: A Call to Action*. Ms. Lawler requested the Panel members to review the draft and provide feedback from an economic perspective. The Panel was invited to review and provide comments and input for the development of the specific goals and policies section of the EGPR later this summer.

Ms. Lawler invited Panel members to attend a May 22nd meeting of the State Agency Advisory Group, which includes every agency and department, and to provide a briefing on the *Creating A Shared California Economic Development: A Call to Action* report. She also invited the Panel members to brief the Stakeholders Advisory Group, comprised of 50 organizations, in late June. Ms. Lawler noted the development of the EGPR is consistent with the findings and recommendations of the Panel’s work. Sunne Wright McPeak commended the integrated approach and noted the opportunity to do this around the State for consistency across State policy reports, such as the Commission on Building for the 21st Century report. Staff was directed to ensure representation at the May 22 meeting.

Status of the “California Economic Forum” on October 23-24, 2003

Ed Kawahara reported for Doug Gordon, Vice-President of the California Foundation for Commerce and Education, on the status of the upcoming “California Economic Forum” on October 23-24, 2003. The invitation-only forum will be held at the Hayes Mansion Conference Center in San Jose. The California Foundation for Commerce and Education will host the forum. Co-Sponsors include the California Chamber of Commerce, San Jose-Silicon Valley Chamber of Commerce and the Panel. The Panel will have a brief meeting from 10:00 A.M. to 11:30 A.M. on October 23 prior to the forum.

California Commission on Taxation in the New Economy

Sunne Wright McPeak reported on the status of the California Commission on Taxation in the New Economy. (At the request of Governor Davis, the Commission recently

expanded its work from alignment of tax policy to the new economy to the consideration of structural reform of current state revenue and state/local fiscal relationship policies.) Ms. McPeak, Bill Simmons and Jerry Neuman serve as a subcommittee on taxation for the Panel and prepared a written testimony for the Commission, emphasizing economic principles to guide the assessment of tax policy.

The Commission's Interim Report is due May 22nd. The Commission has been addressing a range of issues including tax efficiencies, changes in tax sources, changes in tax levels, dedication of revenue sources for specific uses, swap between some of local sales taxes and property taxes (AB 1221), flat tax, value added tax and a statewide utility tax. Ms. McPeak noted that the business community is looking for stabilized funding and viable units of economic development at the local level.

The Panel members agreed to review and comment on the draft recommendations of the California Commission on Taxation in the New Economy's Interim Report due May 22, 2003.

Draft "Guiding Principles, Goals and Criteria for State Investment in Economic Development"

Staff presented a draft "Guiding Principles, Goals and Criteria for State Government Investment in Economic Development." There was extensive discussion and editing of the draft especially in regards to the definition of investments and methods to measure returns and outcomes.

Key discussion points included:

- Methods to measure goals for the economy and defining what the State's economy will be. The need for state investments to trigger private investment.
- The need to go beyond having guiding principles to building a culture around them.
- Guiding principles must have accountability and transparency.
- Rather than focusing on the business "climate" per se, focus on what is needed to create competitive advantage with other nations, states and regions – that we have an advantage relative to something – and that we invest to support this advantage.
- The Panel's guiding principles and goals should build upon and be relatively consistent with other recent State policy documents, such as *Invest for California: Strategic Planning for California's Future Prosperity and Quality of Life*, the *Environmental Goals and Planning Report* and the *State Workforce Investment Board Strategic Plan*. Staff was directed to review recent state-level public policy reports to use as a foundation for the guiding principles.

Heather Barbour, Principal Consultant for the Joint Committee on Preparing California for the 21st Century, suggested that the Panel address “macro goals” and identify our audience through regional forums and other venues to obtain input. Mr. Simmons noted that the guiding principles would be hard to implement if local professionals involved in workforce and economic development do not support it.

Sally Covington, Director of the California Works Foundation, suggested the Panel could frame the issues of achieving competitiveness via a high road versus low road economic development strategy, with the high road focusing on investment for innovation and workforce skills. There was discussion for a unified economic development budget, which could help rationalize a system with multiple resources, and to identify how much is spent, and for what purposes. The Panel could play a role in monitoring the process.

Doug Brown, Consultant for the Select Committee on Economic Development, noted that the discussion was moving towards an accountability system. There was discussion for a need of a definitive statement of principles by which state government makes budget decisions. The Panel should play a role in building consensus on how to invest scarce state resources.

Ricky Laster emphasized that the goals need to address issues of quality jobs and investments should support the creation of better jobs. Included in this are training needs for better jobs, for minorities, and for entrepreneurial and creative skills.

Other key discussion points included:

- The “California Regional Economies Project will” provide better information for understanding regional economies; there needs to be state and local partnerships for investing in the workforce system and jobs, which the criteria for investing should reflect.
- The problem is implementing policy; coordination for effectiveness needs to be added to criteria.
- There needs to be some recognition that the state of the economy goes through fluctuations and change. State investments should leverage the private sector in good as well as bad times for the good of all, and should be consistent through these fluctuations.
- Add technology as part of equity criteria, because communities have to be able to “connect” to compete.
- Investment criteria should include how well government programs communicate information to different communities and solicit consultation.

Ms. McPeak urged the Panel to consider business concerns about return on investments and the environment in which businesses operate. Another concern is that there is too

much focus on short-term versus long-term results. The Commission on Taxation in the New Economy supports the high road/high investment approach to get a better return on investment. Policymakers should have the tools for a disciplined look at the performance of the economy. There are short-term business climate issues, such as workers compensation, that need to be addressed. The workers compensation system needs reform and failure to do so will undermine everything policymakers are trying to do with businesses and taxpayers in the long-term.

In conclusion, staff was directed to revise the draft “Guiding Principles and Criteria for State Government Investment in Economic Development” and to develop a matrix of policy recommendations from previous reports that will serve as a foundation for the guiding principles by May 16 2003.

Draft Concept Paper for Activities with Pacific Gas and Electric Company (PG&E)

Ed Kawahara presented a draft proposal for the Panel to partner with PG&E for pre-requisite planning and organizing and co-hosting with local organizations, regional forums in Northern and Central California. The Panel directed staff to expand and submit a funding proposal to PG&E to conduct regional forums on economic growth and competitiveness issues and pursue other funding sources.

Status of the “California Regional Economies Project”

Doug Henton, President of Collaborative Economics, Inc., provided an update on the “California Regional Economies Project.” The “California Regional Economies Project” is funded by the California Workforce Investment Board (CalWIB) through an Interagency Agreement with the California Technology, Trade and Commerce Agency to provide real-time economic data and information and to connect workforce development and economic development with a focus on regions and industrial clusters.

Jerry Neuman, Donald Fowler and Bill Simmons serve on the project’s Joint Committee with CalWIB Members Larry Gotlieb, Kathleen Milnes and James Crettol. The Committee met on May 6th to review the progress on obtaining needed data from EDD and schedule timelines and product delivery dates. Key developments include the following.

- There will be nine regional economies reports starting Fall, 2003 that will include an economic base analysis and identification of “clusters of opportunity,” which will be used to select one industry cluster for in-depth analysis in each region. The industry cluster will be selected with the assistance of regional partners during the forums.
- Staff will provide a draft matrix of industry cluster studies completed since 1998 for review and to use as a baseline for the “California Regional Economies Project.” The information will be also be used to identify the regional “clusters of opportunity.”

- A draft list of regional partners is being developed to assist in organizing the nine regional forums for the “California Regional Economies Project.” Local Workforce Investment Boards will be asked to take the lead and partner with economic development corporations, regional collaboratives, community colleges and other local organizations.
- The methodology to complete the economic base analyses and industry cluster studies will be detailed and documented so the process can be replicated on an ongoing basis.

Ms. McPeak asked how the regional forums can lead to a statewide forum and how the process will engage policymakers. There was discussion to involve Legislators in the regional forums and involve policy makers in reviewing draft documents.

Suggestions were made to add the Community Colleges>Economic Development Network and the Central Labor Councils to the list of potential regional partners.

Report on the Economic Strategy Panel Forum as the Annual California Association for Local Economic Development (CALED) Conference

Mr. Simmons and Don Perry, Senior Economist in the California Technology, Trade and Commerce Agency, provided a report of their presentation at the CALED Conference. Kurt Chilcott, President and CEO of the Small Business Finance Corporation in San Diego and member of the Panel’s Technical Advisory Group was also a presenter.

Mr. Simmons noted strong interest in the “California Regional Economies Project” and interest in participating in the process. Much of the discussion focused on how timely and useful economic data and information can flow out to the regions.

Highlights of the Assembly Jobs, Economic Development and the Economy Committee on the State of the California Economy: Meeting the Challenges Ahead

Assemblymember Mark Ridley-Thomas, Chair, of the Committee, presented a summary of the hearing that was held on March 11, 2003. Assemblymember Ridley-Thomas said that the need for the hearing was clear and the Panel’s *Creating A Shared California Economic Strategy: A Call to Action*, underscored the needs for our economy. The hearing included testimony from a variety of speakers from throughout the State, including Mark Baldessare of the Public Policy Institute of California, who noted the most important issues currently facing Californians are the economy and unemployment, the State budget, education and schools and war and terrorism.

The Committee heard corporate executives and small business owners view California as having a costly and unfavorable business climate, and that many were considering moving or shutting down due, primarily, to the cost of workers compensation. The Legislature needs to take seriously the level of unrest and potential magnitude of displacement.

Some key points the Committee heard included:

- Economic growth alone is insufficient for prosperity for all;
- Job growth is unevenly distributed; and,
- The State's comparative advantage is eroded by unmanaged growth, which increases the need to allocate scarce public resources.

Assemblymember Ridley-Thomas noted that policymakers require a reliable set of economic information that reflects the dynamic changes in regional economies. Secretary Hatamiya described the guiding principles, goals and criteria for state government investment in economic development that the Panel is developing and how this can help the Committee. Assemblymember Ridley-Thomas said many local governments have looked at this issue, and that the Los Angeles City General Plan has a statement of principles based on economic justice. The challenge is to reconcile what it means to have a healthy economy – sometimes there are conflicts, and the Panels' job is to help address the conflicts. Staff will continue working with the Assembly Committee on Jobs, Economic Development and the Economy, including receiving input on the draft "Guiding Principle for State Investment in Economic Development."

Ms. McPeak raised the issue of how to engage business leaders in the larger discussions around economic development. She hopes for increasing dialogue and to identify how the Panel can help. We need to think comprehensively and strategically, with an increasing appreciation for all the various elements that need to be integrated to build a healthy economy. The point was made that the key issues are economic growth and the use of land. Doug Henton said that we need more information about business dynamics – who leaves and who starts businesses, by industries and regions, by jobs and occupations, to discern the nature of the job market and address uneven development. The dynamism is with small businesses and the emerging class of micro-businesses, and we can do a better job of understanding these dynamics. Mr. Ridley-Thomas said there is a paucity of data, and that the University of California is doing a study on the role, status and contribution of small business in economic growth.

Discussion of Opportunities in Rural Economic Regions: The Case Study of the Mother Lode

Mr. Pat Lanthier, Principal of Rivera/Lanthier and Associates and member of the Panel's Technical Advisory Group, made a presentation on "Connecting Progress and Preservation" as a strategy for the Mother Lode in the Sierra Nevada. The focus is to preserve the region's natural beauty but provide increased competitiveness and quality of life through "economic gardening and hunting." Its goal is to increase jobs for knowledge workers and stop the brain drain of educated youth by connecting the region to outside markets through telecommunications capacity. The effort has many partners including the Technology Trade and Commerce Agency, and has leveraged a \$250,000

grant from the Agency to a \$1.3 million total thus far. Other partners include the local Workforce Investment Board, the USDA, the Yosemite Community College District, and the Continuing Ed High School, which is developing a video lab.

Mr. Lanthier said a role the Panel can play is to review the regulatory policies for new technology and its access and application in rural areas. For example, educational institutions are centers for high-speed access, but the only users can be educators and only for “educational” purposes. There is also underutilized capacity of the State Emergency Services broadband. Staff was directed to research policy issues regarding the availability of high-speed internet access in rural areas.